RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Nov. 10, 1993 **LETTER 1134**

THE PICTURE: I've been warning in recent Letters that my work indicates that the **bonds** have topped out. On top of that, I've also warned about the extremely bearish, almost shockingly bearish, action of the **D-J Utility Average** (the Utilities have now wiped out almost all their gains of 1993). The action of both utilities and bonds suggest that interest rates have bottomed and are probably heading higher. If my analysis is correct, then the stock market and the Fed will be faced with problems. Bulls on the market have immediately come forth with the observation that many times in the past when either the bonds or the utilities have topped out, the stock market has continued to rise.

True, and that may be the case again. However, declining interest rates and liquidity have been the underlying force behind the 1992-93 stock market rise. So if the perception changes, if the new perception is that interest rates have bottomed and are now heading higher, this could be more than merely a fly in the bull market ointment.

One thing that bothers me here is that I have never seen bonds in such weak hands (and by weak I mean bonds in the hands of the public via massive purchases of bond mutual funds). As this is written, the T-bonds have declined over 6 points, which means that a full year's interest has been wiped out. From its September high, the D-J Utility Average has lost a whopping 11.7%, equal to two year's dividends. This is one of the worst two-month performances by Utilities that I can ever remember seeing.

The Fed has been buying bonds in massive quantities over the last few years. If the bond market has indeed topped out, we will almost surely receive a golden opportunity to see how successful the Federal Reserve is in supporting the bond market (and believe me, the Fed will most definitely want to support the bond market).

The **NYSE Financial Index** includes ALL financials -- banks, S&Ls, REITS, brokers, loan companies. As you can see (chart at bottom of page 2) the Financial Index has been smashed. Since the financial sector has been one of the main bulwarks of the 1992-93 rise, I take this action as bearish for the entire market.

Technical: As this is written my **Primary Trend Index (PTI)** has not yet turned bearish -- it is still holding above its 89-day moving average (see page 2 chart). However, on November 4 the **advance-decline ratio** closed 1.02 points below its October 15 high. This effectively ended the amazing one-year Buying Stampede.

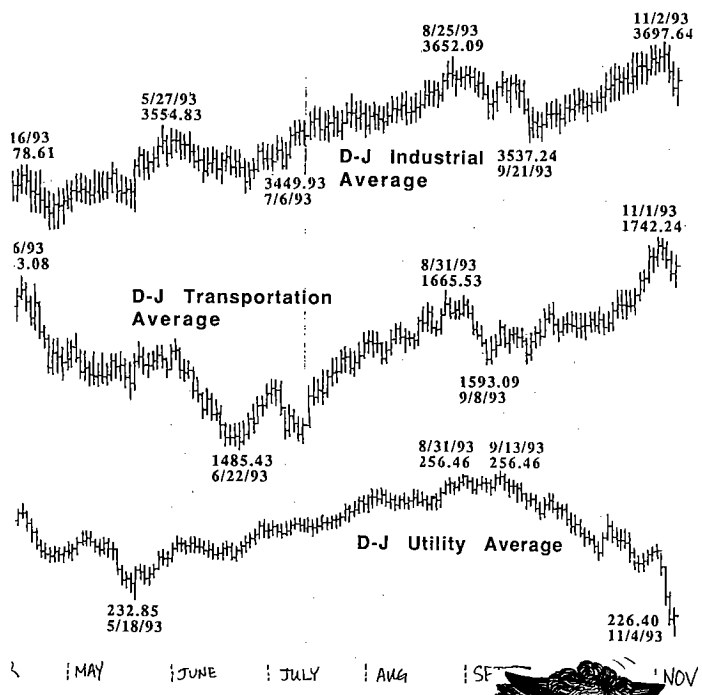
I have drawn attention to this historic Buying Stampede in Letter after Letter. Never before has a Buying Stampede lasted for a full year. I take the termination of the Stampede as a long-term bearish omen -- it's a definite break in the bullish continuity. From here on I will depend on the PTI and the stock averages to tell me the rest of the story. But again, I take the termination of the Buying Stampede as a decidedly negative indication for the stock market.

Many subscribers have written or called to ask, "What was the meaning of the late-October confirmation by the Transports of the record Dow highs?" I told them that on a mechanical interpretation, the new highs in both the Dow and the Transports could be taken as bullish. But I reminded them that in an extended bull market one sees confirmation after re-confirmation after re-confirmation.

Oct. 29 DJIA 3680.59; PTI 4004; A-D Ratio -2.20
Nov. 5 DJIA 3643.43; PTI 3998; A-D Ratio -3.18
Dow Yield: 2.80%; Dow Price/Earnings: 32.5
Dow 200-day MA: 3503; Dow 30-day MA: 3617
Dow Times Book Value: 3.17; PTI 89-day MA: 3941
Percentage of Undervalued Blue-chips: 7%
Dow Low Risk Buy Index: +76; Gold-PTI: 1122

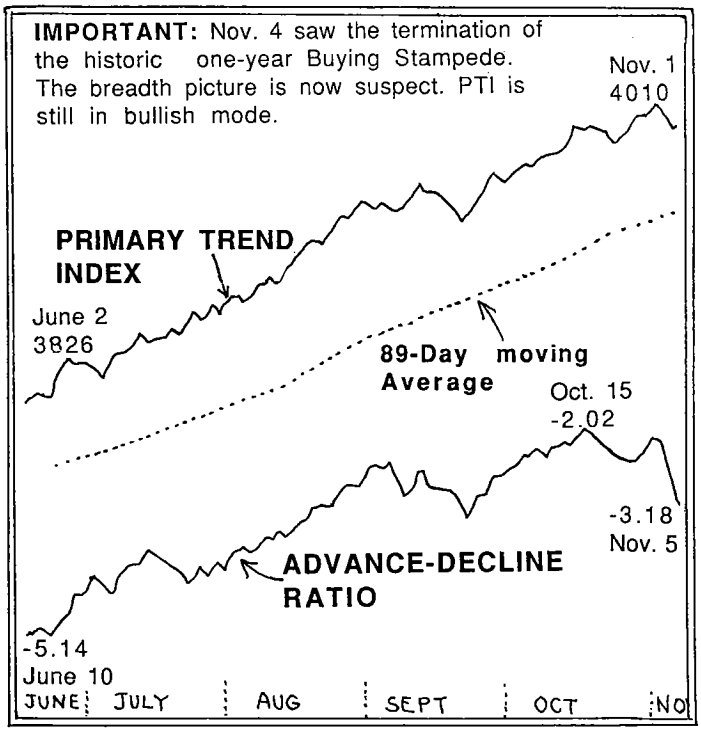
Ultimately, there must be a FINAL re-confirmation prior to the birth of a new primary bear market. At that point detractors will complain that "the Dow Theory doesn't work any more." Which is absurd on the face of it, since the foundation of Dow Theory is VALUES, and this is the most overvalued stock market, and one of the frothiest, in stock market history. Furthermore, in that it began in late-1974, this is the OLDEST bull market in history. Each re-confirmation must therefore be taken with increasing skepticism. And as older subscribers know, Richard Russell has been very skeptical.

You may not have noticed but on November 4 for the first time in many months daily new lows on the NYSE exceeded daily new highs. When the five-day average of daily new lows surpasses the five-day average of new highs, I take this as a bearish signal. We will watch to see if this high-low ratio appears as this fascinating market story unfolds. Market breadth may be even more important than the action of the Averages in the period ahead.



INVESTMENT POSITION: The bull is still in the box. But gad, look at that -- he's broken out in a sweat, and he's running a high fever. He may not survive.

Seasoned investors are faced with difficult decisions. Do they put their money in low-yielding but "safe" T-bills and money market funds? Or do they put their money in over-priced, low yielding

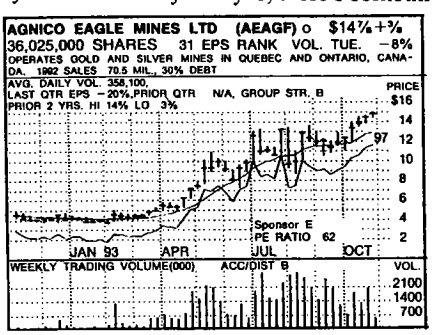


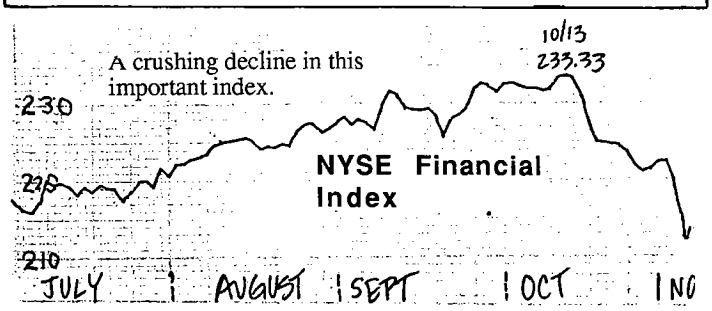
common stocks? Or do they put their money in one or more of the 5,000 available mutual funds? Or do they buy foreign stocks or bonds (everybody else is doing it), securities which they may not feel at home with (and there's always the risk of currency fluctuations)? Or should they buy gold stocks, and then pray that the winds of inflation or competitive devaluations or rising deficits will waft their gold stocks higher?

My own preference is to be almost out of stocks and bonds, to be heavy in cash, and to have a large position in gold. Which gold -- gold options, gold stocks, or gold coins? Personally, I'm in all three.

The single gold stock I like best is Placer-Dome Gold. My second two choices are American Barrick and Homestake. Then I also like Agnico-Eagle (which acts extremely well) and Echo Bay, and throw in Franco-Nevada (Toronto), Hemlo, Royal Oak and Pegasus (Agnico chart courtesy of *Investor's Business Daily*).

Gold coins look good to me; they also feel good to me, both aesthetically and monetarily. Ah yes, there's something about those





beautiful (and heavy) gold coins, real money, that excites the imagination. A very big (in assets) speculator recently told me, "I have many millions of dollars in gold coins locked away in Europe. With my cash money I enjoy speculating in stocks and futures. But between you and me my speculation is a hobby, it's basically like playing 'musical chairs'. My real safety is my gold." This guy survived years in a Russian concentration camp. He's grown cynical -- he has little trust in the current world financial situation. But he trusts gold. You tell him he's wrong; I won't.

Historically, gold tends to make a bottom somewhere in the fourth quarter and then climb during the first quarter of the new year. On that basis, I bought February and April 380 gold options. But, of course, these are rank speculations, and like hot-air balloon rides or dry Martinis, they are not for everyone.

NEW TRENDS, SOCIAL, POLITICAL, ECONOMIC: This is a piece that ordinarily might appear around January 1, 1994. But all these thoughts have been fermenting in my brain, and I want to present them to my subscribers now.

(1) Americans continue to love imports, but with Europe and Japan in severe recessions, our exports are getting hit -- hard. These two phenomena will generate rising trade deficits for the US. Rising trade deficits mean fewer jobs for US workers.

(2) Despite the probability of rising trade deficits, the dollar could be poised for a MAJOR rise. Here's why: (a) The biggest variable in relative currency values is the comparative health of various economies. The US economy does seem to be picking up (housing, machine tool orders, autos, retail sales, etc.). In the meantime, Europe and Japan are struggling with severe recessions. (b) Bonds (US) could have topped out. Declining bonds mean rising interest rates. Rising interest rates in the US makes it more attractive to buy and hold dollars. (c) On a purchasing power parity basis, the dollar is dirt cheap. The two biggest bargains around today are gold and dollars. The dollar buys a lot in the US, but very little overseas. The fact is that the yen, the D-mark, the Swissie and the pound are very overvalued compared with the dollar. Take a trip abroad and see what you pay for a dinner or a shirt or a hotel room compared with what you pay for the same items here. The dollar is a bargain currency. With higher rates and an improving economy, the dollar could (finally) take off on the upside.

(3) Corporate earnings may be improving, the economy could be picking up, but UNEMPLOYMENT (and I've said this before) is fated to be the "Nightmare of the Nineties." Computers and wireless communications are taking over the world. Companies are finding out that they can operate efficiently with far fewer workers, and in many cases robots are doing the work of hundreds of employees. But the biggest incentive to handing out pink slips is vicious corporate competition, competition not only within the US but around the globe. Frankly, I don't know what the solution is to the chronic unemployment problem. It's a messy situation that, so far, has no answer.

Items: Europe just doesn't have enough jobs. Volkswagen, Europe's biggest car maker, will be going to a four-day week, and all Europe is thinking of joining the four-day week schedule. The reason -- share the work, and "make" more jobs. Two weeks ago Chancellor Kohl told Germans to stops acting as if Germany was "a leisure park." German productivity is sliding.

(4) The booming, high-tech communications industry is revolutionizing literally every area of modern life. Add to that the radically changing biotech industry, plus the changing face of banking and finance (especially in derivatives). One result of the new knowledge, I believe, will be a sharp and growing division between the workers who are technically minded and "tied in" to the new technologies vs. the "average Joes," who, I'm afraid, will become almost a sub-class. In the future you'll either be sitting at a computer at home (but in direct contact with your office), or you'll be flipping hamburgers at McDonalds. There aren't going to be many in-betweens. So resentment will rise, resentment by the average, minimum-wage Joes against "the guys with the 'good,' higher-paying high-tech jobs."

(5) Centralization in many industries will be the trend. We can see it clearly in communications, in medicine, in banking, in a dozen different industries. The big companies will have the advantage of access to high-tech and financing, and those advantages will compound over time. I don't care if you're talking about Disney or Time-Warner or Proctor and Gamble, the biggies are going to get bigger and steadily more powerful. Of course, many smaller high-tech companies will develop and prosper, but the temptation will always be to sell out to the giants (for big bucks).

(6) There will be a big swing to alternative medicine. Certainly it will not replace orthodox medicine, but alternative medicine is becoming a major force. Vitamins, meditation, special diets, concentration on strengthening the immune system, all of this will become huge as the benefits of alternative medicine become better known and more accepted (even, gasp, finally, by the AMA). Item: The book, The Doctors' Book of Home Remedies (Rodale Press) has sold over 10 million copies.

(7) With crime increasing, with violence reaching a crescendo, there's going to be an increasing trend to moving not only out of the cities but out of the suburbs as well. Where to? To the small towns of America, and the kicker will be the new communication capabilities. Everyone will have access to multi-media (TV, film, wireless phone, etc.). Everyone will have instant contact with domestic and world events. What about schools in small towns? Teaching will be done via TV, high-tech communications, and lectures by the best in the land -- all via TV or wireless. The move to small, out-of-the-way, "safe" towns is on.

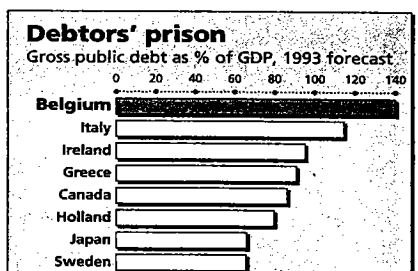
(8) Deficits: Nearly every nation in the world is now running over budget, thereby producing BIG deficits. This must result in a vast amount of fiat currency being created to cover these deficits. The huge rise in total debt is basically deflationary, but the creation of mountains of "new money" to cover these debts is inflationary. The worst international offender -- Belgium. But even conservative, banker-mentality Switzerland is now running big deficits. Et tu, Switzerland!?

Switzerland heads for big deficit

By Ian Rodger in Bern

SWITZERLAND'S public sector will run up a deficit of over 3 per cent of gross domestic product this year, the finance ministry forecast yesterday.

"We must recognise that Switzerland is in danger of losing its reputation as an island of stability in public finance," the ministry said in a statement supporting plans to cut spending and raise taxes. The federal deficit alone, originally forecast at SFr3.5bn ($2.44bn) this year, was expected to surpass SFr6bn and rise to



(9) Derivatives: no question about it, this is the blockbuster on the financial scene. In fact, they are calling the 1990s the "the Decade of the Derivatives." Get this -- the amount of future contracts traded on the world's exchanges are now estimated at an annual $140 trillion. There's never been anything like it! As a result, every bank, security house, and financial institution with international ambitions is moving into the derivative area. They have to, if they want to be a factor in the New Age.

(10) I've talked about this before, but I believe we're seeing the beginning of a trend out of financial items and into tangible or real items. In 1980 an ounce of gold would buy the Dow. Now it takes 10 ounces of gold to buy the Dow. The Dow and ALL financials are expensive, gold is cheap. Item: Good quality jewelry items have held their price levels despite global deflationary trends. Prices of gems (diamonds, rubies, emeralds, etc.) are very firm, and in Europe precious stones are selling at sky-high prices. Gold jewelry is "hot," and selling at a record pace. Ultimately, the major trends are always towards value. Real assets represent value now, compared with financial assets.

(11) Last but not least on my list -- we have the rise of Asia in finance and business. Asia has two aces in the hole -- a fierce work ethic and low wages (with no Social Security, medical, etc.). Yes, I know, S. Korea, Singapore, Thailand, Hong Kong, South China, Taiwan, Malaysia, Philippines, Vietnam, they're all "hot" areas. But it's going to get even hotter in Asia. India with its multi-millions is now entering the picture with booming exports. How long will it be before all these countries go high-tech?

An adjunct to the above: It was long held that with the rise of Asia's millions, the developed nation would enjoy a huge rise in demand for their products. This is partially true, but the rise of Asia has also generated a huge source of SUPPLY. And wait until Asia goes into high gear.

BILLIONAIRES: I've been reading *Forbes* magazine's special issue (Oct. 18), in which it provides a rundown on the "400 Richest People in America." Warren Buffett of Omaha (Berkshire Hathaway) leads the list with a fortune worth $8.3 billion. He's closely followed by Bill Gates of Microsoft (only $6.1 billion). Buffett still lives in the same modest house he bought in 1957 for $31,000. He drives a 1983 Cadillac and he eats a lunch of McDonald's hamburgers and fries. Buffett runs his company with 11 (count 'em) employees. Buffett's wife lives in LA (he's still married to her), but he lives with his housekeeper.

Young Bill Gates is a different story. He's about to get married to one of his own employees. Gates loves fast cars (Porsches) and he's famous for getting speeding tickets. Gates will be moving into a new multi-million dollar high-tech home that he's in the process of building. Gates dresses in T-shirts and sneakers, and his company, Microsoft, is built on a dreamlike spacious "campus." As for investments, Buffett sticks with established companies that he knows well (Washington Post, GEICO, Gillette, Salomon). Gates, on the other hand, deals with the cutting edge of high-tech.

How do you make a billion dollars? Be an investment genius, or be a leader in an industry that is about to explode. Or easier still, just inherit the money as the Walton kids of Walmart did (they're now America's richest family). Actually, there's no set formula for making millions or billions. The Russell opinion: God gives you what you need, not what you want. And if you can't make a living at all, then that's a sign that you're doing something very wrong.

It's my opinion we're put here on earth to learn, and to advance ourselves. And if you are good enough to reach a high state of existence, then your duty is to teach others or to do something that will advance (help) mankind.

There are three states of existence. The lowest state is what you own. The next higher state is what you do. The highest state is what you are. Most of the great men of history are remembered either for what the did (Picasso, Bach, Freud, Napoleon, Einstein, etc.) or for what they were or what they stood for (Christ, Mohammed, Buddha, Moses, Peter, etc.).

The billionaires in the *Forbes* rundown are mostly known (if they're known at all) for what they own, although many have done a lot for business and even for their country, and others are known for being fine people.

But history remembers the doers and the great souls: Renoir, Beethoven, Freud, Shakespeare, Joan of Arc, DeGaulle, Caesar, Washington, Jefferson -- the people whose character and thoughts changed the world.

I've always said, "If you want to be remembered in history, be a great painter or write a great novel. If all you've done is make a billion dollars, the odds are that you'll be forgotten a few years after you've departed from this earth." Ah yes, but having a billion

is undoubtedly more fun than writing a great novel in a rundown apartment in Greenwich Village. To each his own.

NOTES & QUOTES: First, I want to thank those many subscribers and readers who sent me information (mostly their own personal experiences) about EDTA chelation. I received about 70 letters and six books. Many, many thanks. Gad, it's amazing -- if you want to know anything about anything, just ask *Dow Theory Letters* subscribers. The information was invaluable, so thanks again, all you kind ladies and gentlemen. More interesting (let's call it fascinating) information on chelation in a later Letter.

Important: I know that a great many of my subscribers take vitamins and various dietary supplements. The FDA wants to control and in many cases eliminate your ability to buy these items. A bill has been proposed in the Senate (Hatch Bill S.784) and in the House (Richardson Bill H.R.1709) which will protect supplements from excess regulation and encroachment by the FDA. I urge all interested subscribers to write their Congressman and Senators urging them to protect us via the Hatch and Richardson bills. By the way, there has been almost no publicity on this move by the FDA to restrict our freedom.

* *

S&P's *Creditweek* quotes Thomas Synnott, chief economist at US Trust Bank of NY. Synott warns, "For all its good intentions, the Omnibus Budget Reconciliation Act of 1993 (OBRA-93) will likely allow the US' debt-to-GDP ratio to reach the initial debt-trap danger zone of 75%. This is the point where very little of the interest due can be paid out of current receipts, and thus the interest must be borrowed . . . Unfortunately, according to the CBO, OBRA-93 could well reduce the growth in real GDP by 0.25% per year. That means that by 1998 nominal GDP would be reduced by about $100 billion, and tax revenue would be $20 to $25 billion lower. Under the CBO scenario, the debt-to-GDP ratio would hit 71.1% in '98, a figure that inches closer to the debt-trap danger zone." Russell translation: US economic growth isn't generating enough tax revenue, and unfortunately, Clinton's '93 tax bill is both anti-profit and anti-growth. Conclusion: Look for trouble ahead and a one-term presidency for Mr. Clinton.

* *

Social scientists at Fordham University stated that their "Index of Well-Being" (knocked down by child abuse, which reached its worst recorded level, and child poverty, which hit its worst level since 1983) has dropped to its lowest point in two decades. The report monitors 16 major social problems, including teenage suicide, unemployment, drug abuse, high school dropout rate, etc. The report said that the decline in average weekly earnings has eroded society's health.

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According to the *Congressional Quarterly Researcher,* in 1940 public school teachers rated the following as their worst disciplinary problems: talking out of turn, chewing gum in class, making noise, running in the halls, cutting in line, dress-code violations, littering. But onward and upward. In 1990 here's what the teachers stated were the worst problems: drug abuse, alcohol abuse, pregnancy, suicide, rape, robbery, assault.

* *

Bill and Hillary may want socialized medicine in America, but they could have a long wait. This from Paul Gigot's "Potomac Watch" column (Oct. 29) in the *WSJ* (Gigot is one of the shrewdest and best of the Washington reporters): *"Everyone's trying to be polite, but the whispering here is that President Clinton's health plan is already terminal."* Russell comment -- Maybe that says it all. Personally, I hope so.

* *

When I was a boy it was considered immoral and a disgrace to have a baby "out of wedlock." Even divorce was frowned upon (I remember when two of my parents closest friends were divorced, my folks were speechless). I have long felt that the welfare program and state aid have gone a long way to legitimize the "single mother." The statistics today are horrendous. Sixty-eight percent of all black births are now by unmarried mothers. In 1991 22% of all white babies were born to unmarried mothers. A telling statistic: 48% of single mothers (both white and black) did not graduate from high school. I don't care what you say or what you argue, if you grow up in a family and you don't know who your father is or where your father is, you feel it in your gut. I think the above statistics represent a real breakdown in society, I think the situation militates towards anger, despair, violence and crime. The situation has gone so far that at this point I don't even have any suggestions. But I am convinced of one thing -- a socialist-tending government (such as ours) offering endless entitlements to its citizens weakens the structure of society. When an individual lives through frustration, strife and competition, it builds strength and feelings of self-worth. And these in turn allow people to take responsibility for their lives.

* *

From 1973 to 1993 over one million men, both blue and white collar, have lost their jobs. And when you lose your job today, it's not temporary, it's for the duration. As for economics, 40% of the average paycheck now goes for taxes (federal, state, local, FICA, property and Medicaid), and 25% goes to housing, with another 14% to health care. That leaves a total of only 21% for everything else. And you wonder why there's "restlessness" in the land!

* *

You want a little optimism? Try this. Big Bill Berger (he's 6'3", and chief of the highly successful Berger Funds) called me from the Pritikin center here in California to wish me good health and to tell me that he's lost some weight (he's under 300 pounds now). Bill believes that the pessimism of today is comparable to the pessimism following WWII when everyone was worrying about a post-war recession. Berger also believes that stocks as a percentage of financial assets are historically low, and he predicts that today's $600 million in equity funds will quadruple over the next five years. Russell comment: Bill Berger is too big to argue with.

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From our "Give Me a Break" Dept.: A generous subscriber just sent me a set of Economic Trading Cards. The cards, no kidding, feature prominent economists from around the world. Economists? What next, great horse trainers, famous poker players, immortal Harley riders?

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Canada just changed governments and is experiencing hard times (11% unemployment). But there's an ace in the hole -- Canada is ready to exploit huge oil reserves that are locked in the Athabaska tar sands. A 1993 report by the Alberta Oil Sands Technology and Resource Authority states that the sand deposits contain "greater volumes than the entire Middle East oil reserves." Official estimates are that there is over one trillion barrels of oil locked in the Athabaska sands. So far, two multi-billion dollar "mega projects" have been completed, producing almost 300,000 barrels per day, as much as the smallest OPEC member. Cost, however, is $15 per barrel against maybe $2 in the Mideast. But Canada is talking about a new low cost process. It should be interesting.

* *

Explosion: Telecommunications is a huge and expanding industry. Some facts: last year the market for international telecoms grew by 13% despite worldwide recession. In the next four years, about 20 privatizations of national public telecommunications operators (PTO) will almost surely take place. By the end of the decade, in Europe alone, telecommunications companies will constitute a larger equity section than the banks.

* *

The world (and I've said this before) is producing too many cars. But with improving US competition and market share, it's Europe that will suffer most and perhaps Japan second. European productivity has fallen compared with Japan's, and now the cheapest place to produce a car is in the US. In order to compete, Mercedes has come out with a new "cheaper line." But the writing is on the wall for thousands of European auto employees. This headline from London's *Financial Times* tells the story.

Threat to 400,000 jobs in EC auto sector

Study finds 'alarming' gap in productivity with Japan

By Kevin Done, Motor Industry Correspondent, in London

MORE THAN 400,000 jobs are likely to be shed in the European Community's automotive components industry by 2000, according to a confidential report prepared for the European Commission.

The European motor industry is already in turmoil, as vehicle makers and components suppliers seek to restructure to cope with the deep recession and the growing long-term challenge from producers in Japan and the US.

Many leading European vehicle makers such as Volkswagen.

* *

Insects: Bet on it, insects will inherit the earth. *Scientific American* (a great magazine, by the way) notes that many species of insects

have been around for 100 million years or more with little or no change. Scientists estimate that there are 876,000 species of insects and entomologists believe a full count would take it to one million species. Why so many? Simple; unlike other "animals" insects don't become instinct. Almost every species survives, and new species continue to evolve. In contrast, there are only 4,000 mammal species, and each year more and more mammals become extinct. So swat 'em, poison 'em, stamp on them, crush 'em, you're wasting your time. And who knows, the insect you half-kill may evolve into a new species, and then probably outlive you and your kids by maybe 50 million years.

* *

Help! I'm getting dizzy. Every time I turn on my TV I see President Clinton talking. He never seems to stop talking. Honestly, I can't listen to him any more. If he isn't talking about reversing something he said yesterday or compromising on something he said the day before, then he's talking about new programs or an additional new tax. What really scares me is another three years of Clinton -- and then, who knows, maybe a follow-up four years of Hillary.

Clinton's latest B.S. is that America's chronic crime epidemic is really a "national health problem." I say, the hell it is, it's a national morality problem. By putting crime in the health category, Clinton is implying that criminals are not responsible for their actions, that crime is a product of unhealthy conditions in the nation (right, and his health program will reduce crime). Listen, I was around during the Great Depression when poverty was rampant and the nation's health was rotten compared with what it is today. But 50 years ago teen-agers weren't killing each other and you could walk around any big city at night without being mugged. This health-tied-to-crime bit is just another of Clinton's mindless liberal concepts. Nobody is forced to be an embezzler, a mugger, a thief, or a killer. It's a CHOICE. This nation has a morality problem. People choose crime, and people choose to remain criminals. C'mon, Clinton, let's talk about accountability and responsibility.

Clinton Talks, but Who Listens?

■ **Radio:** Local execs say President's five-minute address is not compelling enough to interrupt programming.

By CLAUDIA PUIG
TIMES STAFF WRITER

Gaspar Cisneros Barnette has voted Republican for the better part of 60 years, but he would still like to listen to

* *

The coming NAFTA vote will be critical for Clinton. The word is that if Clinton can't get NAFTA passed, then what the devil can he pass? Incidentally, it's worth noting that in the elections two weeks ago, America's two biggest cities (NYC, LA) both elected Republican mayors (Clinton made two trips to NYC to stump for Dinkins, who lost). More startling, Republican Christine Todd Whitman defeated Gov. Jim Florio (Florio's campaign was directed by Clinton's top political advisors, Carville and Begala). Also indicating voter anger, both NYC and Maine approved term limitation for pols.

* *

Tobacco companies have been losing out in the US. Never mind, now they are aiming at Asia for sales (although the Chinese government has launched an anti-smoking campaign). Japan, however, has a strange dilemma. The Japanese Health and Welfare Ministry directs the anti-smoking program, but the Japanese government has a virtual monopoly on the production and sale of cigarettes. Japan Tobacco, Inc., generates $15 billion in taxes, so it's the largest taxpayer in Japan. Japan is the only industrialized nation in the world that refuses to warn its citizens about smoking and still allows cigarette advertising on TV.

* *

In my opinion, only two film makers today deserve to be called brilliant (maybe geniuses), Stanley Kubrick and Martin Scorsese. Kubrick (The Killing, Paths of Glory, 2001, The Shining, Full Metal Jacket) will be making a futuristic sci-film about intelligent robots against a background of a world where the icecaps have melted, and New York's skyscrapers are protruding from the ocean. The film is scheduled for next year. Stanley, if you're reading this, "Hallelujah, I can't wait to see your next masterpiece!"

* *

Want to get away from it all? Try the French Foreign Legion. Problem is that 8,000 volunteers show up each year for only 1,500 openings. If you get in, there are no questions asked. You can be a criminal, a wife-beater, anything, a drunkard, when you join the legion you don't have to reveal your identity. In fact, to make everyone equal, when you sign on you are given a false name and nationality. Ironically, Frenchmen are legally barred from joining the Legion (except as officers), but 40% of the Legion is French. The Legion's motto: *"Legio Patria Nosta,"* meaning, the Legion is our homeland. These fabled tough guys are also sexist -- there are no women in the Legion.

* *

The Carolina Panthers are the newest members of the NFL. General partner is Jerry Richardson (CEO of Flagstar Companies, which includes Denny's and most Hardee's restaurants). Ah, only in America -- back in the early 1960s Richardson (a Baltimore Colts receiver) quit the Colts in a fight over a $250 raise he couldn't get. But here in 1993 Richardson led the group of 15 millionaires who put up $140 million to buy the Panther franchise. On top of that, they'll build a 72,300 seat stadium in Charlotte, to be ready in '95 and financed with private money (cost -- $160 million). Oh yes, there will be 20-foot high panther statues outside the stadium. Four other cities will be waiting until November 30 for the next vote to pick one more franchise. The waiters, Memphis, St. Louis, Jacksonville, Baltimore. The winner will probably be -- St. Louis, which now has two groups competing for the franchise. A major St. Louis advantage -- it's the home of Anheuser-Busch, a major NFL advertiser.

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Speaking of sports, basketball salaries are going spaceville. Here are some examples: Larry Johnson, Charlotte Hornets, signed for $84 million over 12 years, and this year's top draft picks, Chris Webber, Shawn Bradley and Anfernee Hardaway signed deals for $74.4 million, $44.2 million and $65 million respectively -- none of these rookies have ever played a minute in the pros.

* *

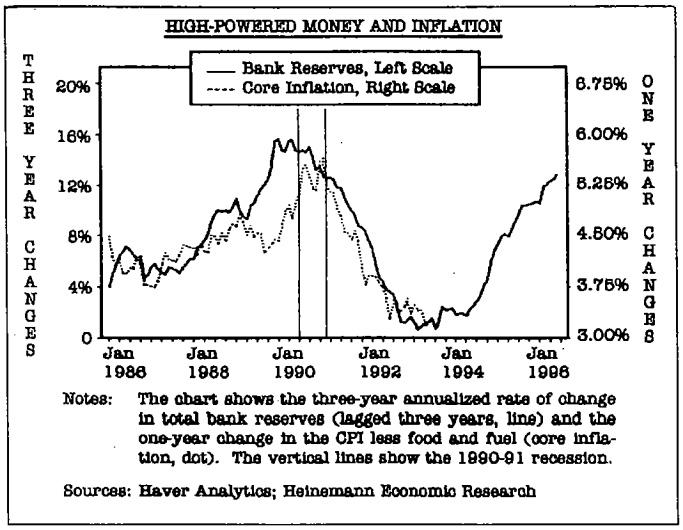
Build a Better Mousetrap Dept.: The little Seecamp Company in Connecticut manufactures a pistol that is widely conceded to be the finest mini-pocket pistol made (it's a seven-shot 32 caliber semi-auto, and its total length is only 4 1/8 inches). Seecamp will only answer the phone between 2PM and 4PM on Tuesdays and Thursdays. Price for the little pistol is near $400. Delivery time for the pistol -- a full 18 months, take it or leave it.

GOLD: First, the fundamentals: Europe is in a severe recession. Unemployment has risen to politically unacceptable levels. To stimulate their economies, the various European nations have two ways to go: (1) monetary, which means inflating the money supply; or (2) fiscal, which means running big, stimulative budget deficits. Both approaches (and nations may use both) mean devaluing currencies. The French franc has already dropped below 17 cents. The Bundesbank has made it known that it would not mind a lower mark in relation to the dollar. Both the D-mark and the Swissie have declined substantially over the past few months. All of this is fundamentally bullish for gold, particularly in the intermediate to longer term.

On November 1 (with the precious metals overbought and already in a corrective phase) Xerox announced a new silver-free film process. Since photography is the single largest user of silver, silver plunged and the other precious metals (including gold) declined in sympathy. I take this new threat to silver seriously, but it has nothing to do with gold. Gold alone is a monetary metal, and I have always warned that silver is basically an industrial metal (no central bank in the world holds any silver in its reserves).

In the meantime, the Fed continues to inflate bank reserves at double digit rates. What effect will all the Fed's pumping have on the inflation rate? H. Eric Heinemann, a brilliant economist (he's with Ladenburg, Thalmann), offers a most important study, which I include below. Note how closely the inflation rate follows the

three-year annualized rate of change in total bank reserves (the latter lead inflation by three years). Heinemann's study indicates that the inflation rate should start rising shortly (based on what has already occurred in bank reserves). The study also suggests that in a little over two years (early '96) the US inflation rate should be over 5.25%. At 5.25% inflation, the dollar loses half its value in around 14 years. This study, obviously, has very important implications for gold.



I emphasized many months ago that this early phase of the gold bull market would not be an easy ride. I think that by now, you get the idea. It's been a tough ride, and the media's reporting on gold continues to be overwhelmingly negative. The press has swallowed the US government's mindless "gold is a junk-commodity" line, and now it's up to the primary bull trend of gold to do its work. Russell advice: Bet on the primary trend of gold, not the US government.

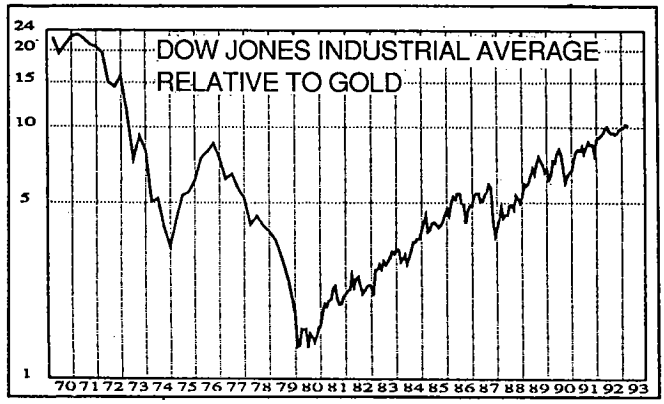
The primary trend (and I've written this many times) is more powerful than the Fed, the US Treasury and all the central banks of all the nations of the world combined. Ultimately, the primary bull market in gold will express itself. The longer gold is held back, the more powerful will be the coming rise.

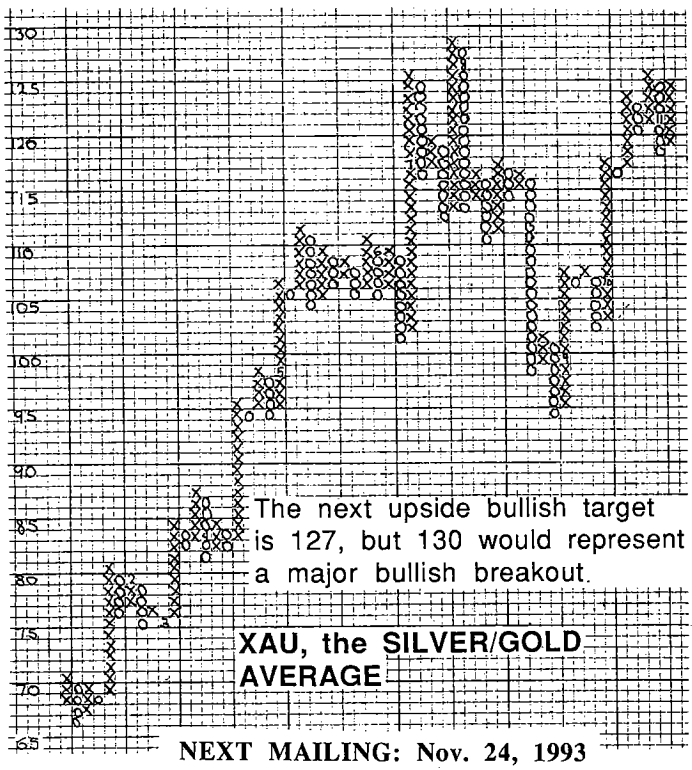
Last week a subscriber asked me why I insist that the US government hates gold. "Easy," I replied, "Consider this -- the US government still stubbornly and idiotically values its own gold hoard at a price of $42.22 an ounce. If that doesn't tell you that the government doesn't want higher -priced gold, I don't know what does." I added, "Of course the really ridiculous paradox is that the US Treasury has shut the gold window. If a foreign creditor wants to turn in its dollars for gold, the US states flatly, 'No,' you can't have any of our gold. The only thing we'll give you for your dollars is more dollars (and why not, we manufacture dollars at will)'."

Is gold cheap? I know damn well it is, at least it's cheap compared with common stocks. Study the chart above on the right. In 1970 the Dow would buy 25 ounces of gold, but in those days the gold price was artificially set at $35 an ounce. However, in 1976 the gold price was set by the free market -- in 1976 the Dow bought 9 ounces of gold. The gold bull market picked up steam in 1976, and by early-1980 (with gold over 800) the Dow would buy only one ounce of gold

The bear market in gold pushed the Dow/gold ratio higher. Today, the Dow will buy 10 ounces of gold. The Dow/gold ratio is now actually above the ratio which existed back in 1976. Remember, it was '76 when the last great gold bull market really got underway.

I've said this before, and I'll repeat it. I believe we'll again see the time when the Dow will only buy a single ounce of gold. At that time, the price of gold and the Dow will cross.





NEXT MAILING: Nov. 24, 1993

I've included my point & figure chart of XAU, the Philadelphia Exchange's Gold and Silver Average. XAU is a good proxy for the whole precious metals complex. As you can see, gold stocks have been acting well -- although there have been numerous shakeouts, with each shakeout moving gold shares into stronger hands. A secondary bullish signal on XAU would be a 127 closing. A strong primary bull signal would be a 130 closing. You can follow XAU in the *WSJ* or your broker can give you the closing number.

I imagine that some gold-holding subscribers may be getting impatient about the gold action. They want 400, 500 dollar gold. Sit tight, this is a budding gold bull market, and the bull market will express itself in its own good time.

LATE NOTES: Attention now focuses on the advance-decline ratio, which suffered an important loss last week. With the market now in an oversold state, we should see a rally coming, but a rally with upside progress centered mainly in the Dow. Note that the A-D ratio (page 2 chart) did not confirm the November 1st highs recorded by both the Dow and the PTI. The Buying Stampede has ended, and technical deterioration is setting in for the first time this year. Watch for the A-D to behave poorly, regardless of what the Dow does. Watch the NYSE high/low statistics, which have switched to more lows than highs for the first time in '93.

Bonds appear to have topped out. If gold (spot) can make it to the 375-380 area, it should be in position to move to 400, and from there to new '93 highs. The media and most analysts remain stubbornly negative on gold -- exactly the kind of sentiment gold bulls love.